

McCrory

CORPORATION

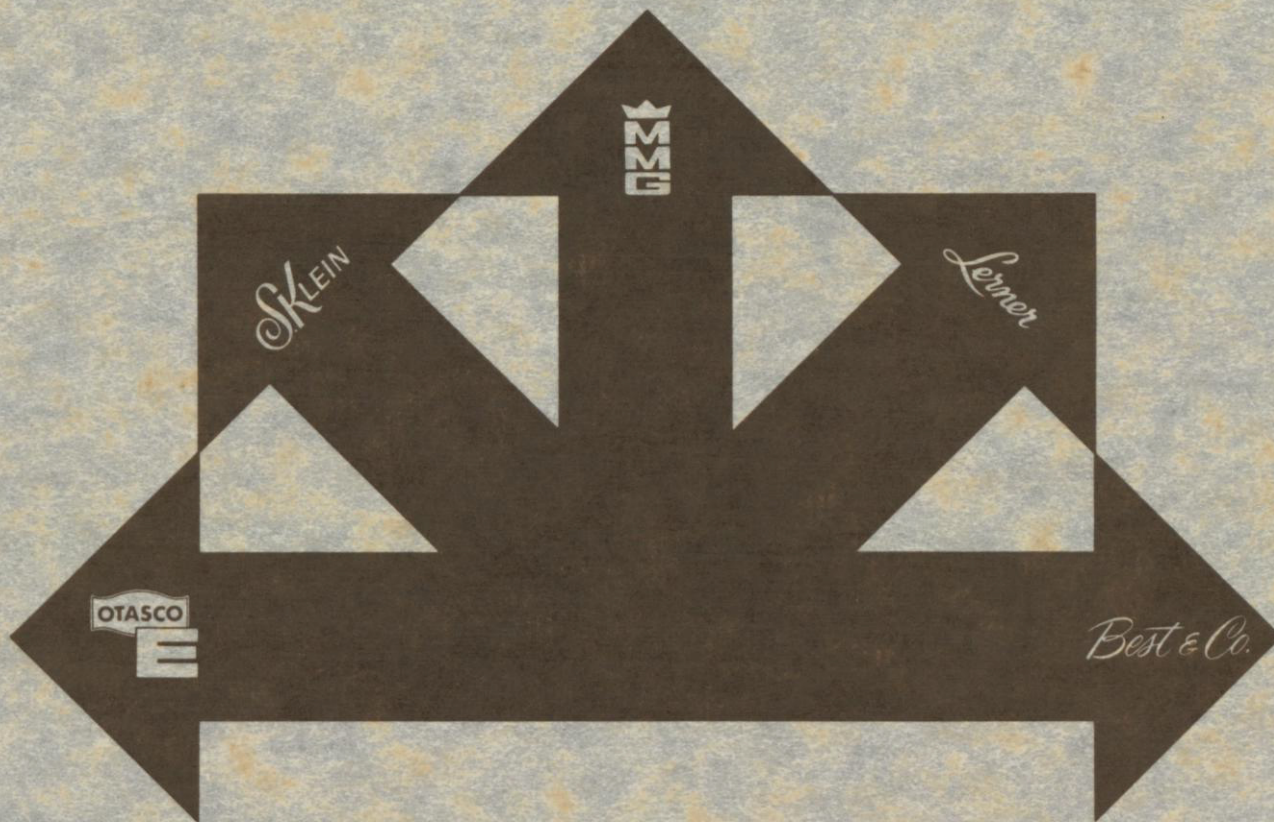
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ANNUAL REPORT 1968



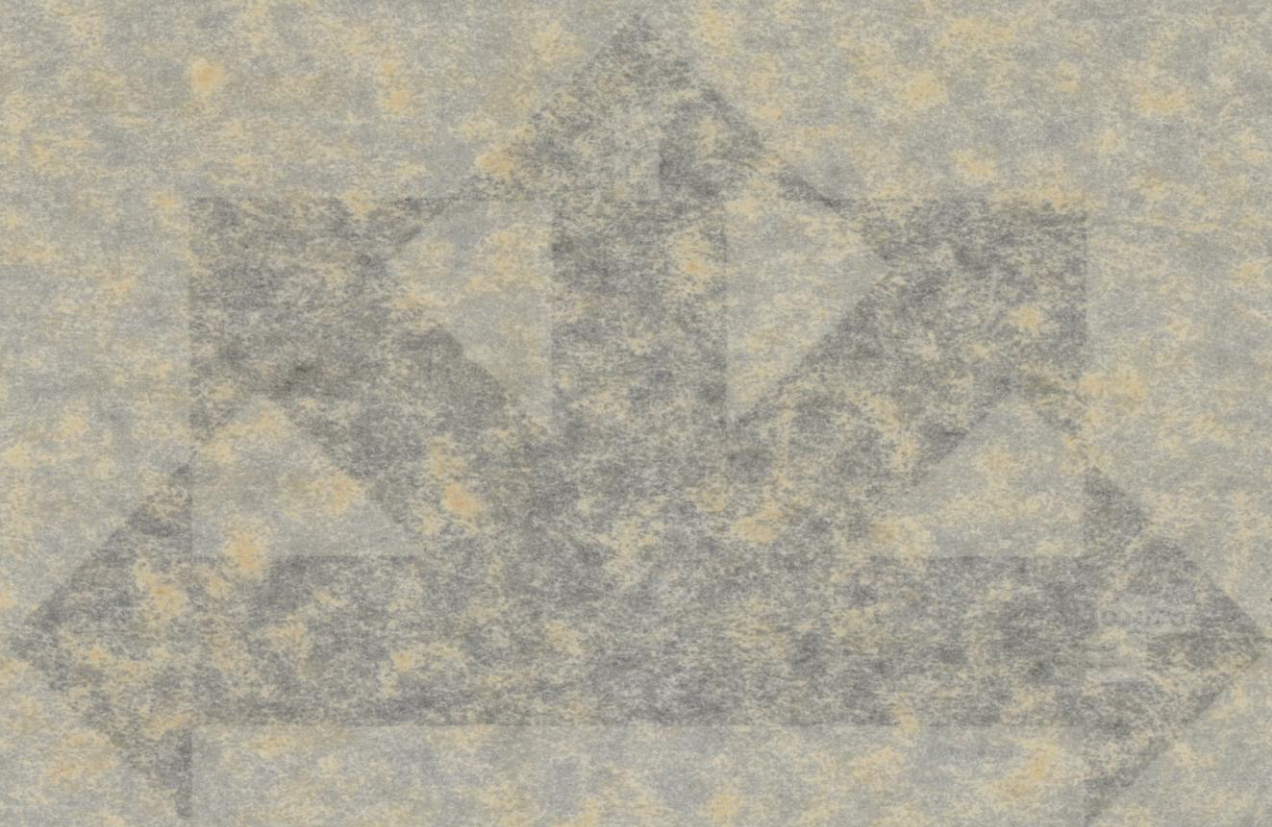






“The McCrory Corporation concept of ‘total retailing’ provides... a strong common base... and through the broad range of retailing engaged in by the various units ... a diversification which contributes to total strength.”





The title of this book is "The History of the United States of America" by Howard Chandler Christy. It is a very old book, and the title is written in a very old script. The book is very old, and the title is written in a very old script. The book is very old, and the title is written in a very old script.





## ANNUAL REPORT 1968

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### Annual Meeting

The Annual Meeting of Stockholders will be held in Room 315, Chemical Bank New York Trust Building, 277 Park Avenue, New York City, on Tuesday, May 27, 1969 at 10:30 a.m., local time. Each stockholder entitled to vote thereat will receive by mail a formal notice of meeting, together with proxy statement and form of proxy, on or about May 6, 1969, at which time proxies will be solicited by order of the Board of Directors.



## To our Stockholders:



M. Riklis, Chairman

Fiscal 1968 was the most successful year in McCrory Corporation history. Presented on the following pages, in graphic form, are a number of measures of the company's progress and financial health. In addition to the data presented in these charts, several points bear special mention:

- *For the fifth consecutive year earnings increased to a new record level.*
- *Operating income increased 17 per cent, reflecting gains in all major units and profitability of all units in 1968 with the exception of Best & Co.*
- *Net income increased 10 per cent despite the Federal income tax surcharge and the loss of dividend income enjoyed in the past from the corporation's investment in*



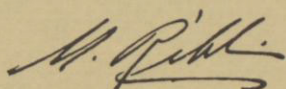
Glen Alden common stock. These two items, which served to reduce net income by approximately \$2,515,000, were partially offset by additional, nonrecurring income in 1968. This additional income, which amounted to approximately \$1,224,000, resulted from dividend income on investment in Schenley Industries common stock and gains on sales of securities and the liquor departments in the S. Klein Department Stores. (The latter were disposed of following Glen Alden's acquisition of Schenley Industries, in accordance with laws requiring liquor producers to be separate from liquor retailing.)

In March of 1969, your company tendered its holdings of Glen Alden Corporation common stock to Rapid-American Corporation pursuant to an offer made by that company. As a result, McCrory received 597,058 shares of Rapid-American common stock, 1,194,115 shares of callable warrants to buy Rapid-American common stock, and \$9,552,920 principal amount of Rapid-American 7 per cent debentures. It is the company's intention to sell these securities in time.

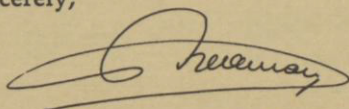
In response to the McCrory Corporation tender offer of March 7, 1969, there were 1,500,000 shares of common stock tendered and the offer expired on April 18.

The McCrory Corporation concept of "total retailing" provides your company with a strong base in a common industrial community, permitting management skills to be successfully transferred from one member of the family to another. At the same time, the broad range of retailing engaged in by various units of the company provides a diversification which contributes to our total strength. Such a base and range of activities, coupled with the personnel, merchandise and procedures throughout the McCrory Corporation, will continue to move the company forward in 1969.

Sincerely,



M. Riklis  
Chairman



S. Neaman  
President

April 18, 1969

## Financial Highlights

	1968	1967	
Net Sales	\$855,743,000	\$813,416,000	+ 5%
Operating Income	38,782,000	33,209,000	+ 17%
Net Income*	13,327,000	12,066,000	+ 10%
Net Income per Common Share*	\$2.50	\$2.27	+ 10%
Cash Dividends per Common Share	1.20	1.20	
Common Equity	97,704,000	83,473,000	+ 17%
Total Assets	323,652,000	295,204,000	+ 10%

\*Includes extraordinary items of \$868,000, equal to 18 cents a share, in the year ended January 31, 1969.



### Net Sales



### Operating Income



### Net Income



### Total Assets





**NET SALES.** The "total retailing" McCrory organization has increased net sales in each year since 1965. In 1968 net sales totaled \$855,743,000, an increase of 5 per cent over the preceding fiscal year.

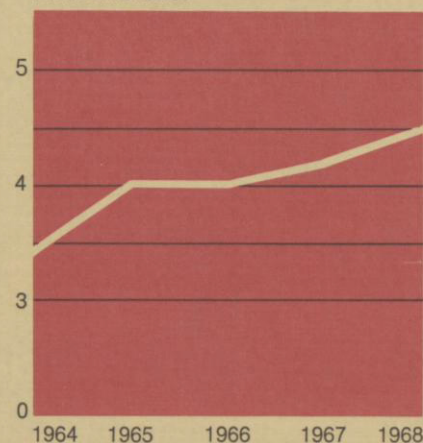
**OPERATING INCOME.** Operating income has increased steadily in the last five years, more than doubling during that period. For the most recent fiscal year, operating income totaled \$38,782,000, an increase of 17 per cent from the 1967 level.

**PROFITABILITY.** The profitability of McCrory Corporation has progressed along with other indices of company growth. In 1968, net income was improved 10 per cent. The total figure for the year was \$13,327,000, compared with the preceding year's \$12,066,000.

**TOTAL ASSETS.** The total assets of McCrory Corporation again increased in 1968 to \$323,652,000. This marks an increase from the preceding year of 10 per cent.

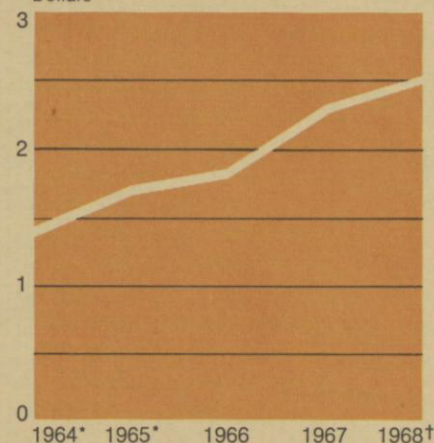
### Operating Income

As % of Net Sales



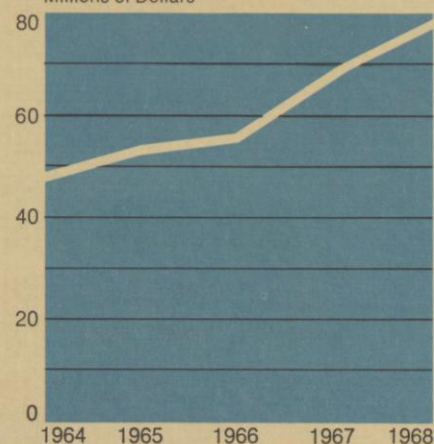
### Net Income Per Share

Dollars



### Working Capital

Millions of Dollars



\*Historical

†Net income in 1968 was \$2.50 per share, a new record level. Pro forma net income per share of common stock, reflecting assumed exercise of all warrants and options and conversion of all convertible securities of McCrory, would have been \$2.08 per common share (including extraordinary items of 13 cents per common share) for the year ended January 31, 1969.



## Operating Units and Sales

### Sales

1968	1967	
\$246,555,000	\$238,163,000	M M G
283,205,000	248,735,000	LERNER
80,173,000	69,997,000	OTASCO
210,584,000	220,883,000	S. KLEIN
35,226,000	35,638,000	BEST & CO.
<u>\$855,743,000</u>	<u>\$813,416,000</u>	

### Number Store Units

1968	1967	
598	574	M M G
375	361	LERNER
471	454	OTASCO
13	13	S. KLEIN
16	16	BEST & CO.
<u>1,473</u>	<u>1,418</u>	

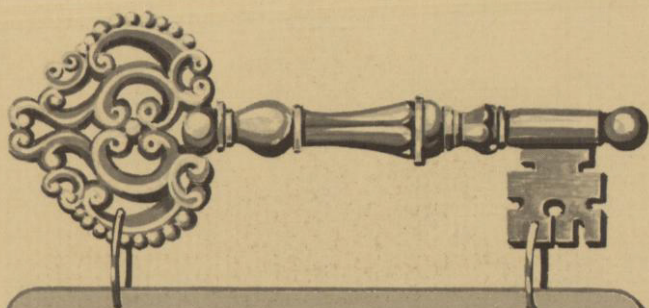




**Mc Crory**  
CORPORATION

## **Concepts of Management**





**McCRORY CORPORATION  
KEY TO SUCCESSFUL  
MANAGEMENT**

**I. FACTS**

**II. PLANS**

**III. EXECUTION**

**IV. SUPERVISION**





**W**e believe in the effectiveness of the multitude—a great many normal people with normal talents, working together, supporting and compensating for each other.

We believe in guided autonomy—individuals using their initiative, having authority to act upon it, and looking to fellow executives for guidance in fields of their specialty.

We try to break our big problems into small segments and assign each to an individual who is totally dedicated to solving it.

Our operating systems and procedures are designed to provide for individual as well as corporate success. In the long run the two are inseparable.

Finally, we believe in a continuous reexamination of everything we do in light of new experience. This is the only way we can maintain our progress.

Samuel Neaman

*President, McCrory Corporation*





Stationery  
Party shop

Tonka

ANOTHER  
M. C. RY





# McCrory-McLellan-Green

McCrory-McLellan-Green (MMG) continued in 1968 the steady improvement begun five years ago. The variety store division's profit-before-tax was 6.2 per cent of sales, a 20 per cent increase over 1967.

In 1968 MMG opened 14 new stores, adding 225,617 square feet in sales area. Although many of these were opened during the last half of the year, nine had achieved a profitable status by year-end. In addition, 22 units were acquired in February, 1969 from a chain in the southeast, bringing to 600 the number of MMG stores in operation.

MMG operates food service units in over half its stores, and these are contributing substantially to the total profit picture. During the year, three limited-menu, fast service units were opened under the "McBurger" name and additional units are planned for 1969.

Merchandising and buying functions continue to benefit from the increased flow of information provided by computer-compiled reports. These are making possible earlier and better decisions by the Buying Division, and merchandise presentations by the stores are being related more closely to the individual community needs.

Greater efficiency in planning and scheduling the movement of goods from vendor to store increased the amount handled by the distribution center by 23 per cent over 1967, resulting in a substantial reduction in costs. New sortation equipment installed at year-end gives promise of providing even more flexibility and capacity in the years ahead, and is one further step down the road of making MMG a TOTAL MARKETING organization.

New store expansion for 1969 will continue at its present pace. In addition, substantial expenditures are planned for rehabilitation of existing stores, many of them in large urban areas.

Frank Patchen (right), MMG president, visits the York, Pa., McCrory Store with J. F. King (left), senior vice president and national store operations manager of the MMG division; W. R. Tallman, vice president and head buyer and Gene Prevet, store manager.

## McCRORY-McLELLAN-GREEN STORES OFFICERS

S. Neaman	Chairman of the Board
F. M. Patchen	President
H. R. Hughes	Vice President—Administration
J. F. King	Senior Vice President—National Store Operations Manager
E. B. Hood	Vice President—National Store Merchandise Manager
R. A. Elliott	Vice President—Manpower
H. Mortensen	Vice President—National Restaurant Manager
P. McClellan	Vice President—Merchandise Controller
W. R. Tallman	Vice President & Head Buyer
K. Phillips	Vice President—Systems & Methods
B. Jacobi	Vice President—Real Estate
W. Shuldiner	Vice President—Construction & Engineering
E. J. Luedtke	Vice President—Regional Manager—Region I
T. B. Acker	Vice President—Regional Manager—Region II
O. W. Wheeler	Vice President—Regional Manager—Region III
N. Embley	Vice President—Regional Manager—Region IV
N. S. McBrayer	Vice President—Regional Manager—Region V
L. C. Shockley	Assistant to the President—in charge of New York Resident Buying Office









# S. Klein Department Stores

S. Klein in 1968 made progress in its transition toward becoming a high-efficiency, high-volume merchandiser.

The S. Klein name, which goes back to 1906, remains one of the strongest store banners on the retailing scene. This was demonstrated once again during the year when the Love's store in Valley Stream, Long Island, was renamed S. Klein and this change alone caused volume to rise substantially. S. Klein's principal fame is based on its having been a pioneer retailer of "bargain merchandise" on Manhattan's 14th Street. The descendants of the original customers who sang the store's praises now live in the suburbs and shop for broader lines and quality of merchandise.

The chain is responding by testing the appeal of different kinds of merchandise and new pricing levels. At the same time, the store image is being modernized. This can be seen by the more contemporary styles reflected in advertising, which in 1968 included more use of radio. It can also be seen in the new "Attitude" shops—boutiques carrying the latest, attention-getting fashions.

The directions of the "emerging" S. Klein are indicated by the store opened in February 1969 in the Willowbrook Shopping Center in Wayne, New Jersey. From the shoppers' viewpoint, it's like walking down an air-conditioned Main Street of little shops, because the store seems to consist of one "shop" after another, each with its own character and attractions. But from an operational standpoint, the Wayne store presents a new concept in efficiency—instead of having departmental stockrooms, the store incorporates a warehouse where the latest merchandise-handling techniques can be applied.

As the experience of the Wayne store is evaluated, the positive values will be applied to plans for opening two additional stores in 1969. One is scheduled for the Mid-Island Shopping Center in Hicksville, Long Island; the other for Cherry Hill, outside Philadelphia. These stores will continue the trend of innovation on which will be established a new Klein's reputation: new customer appeals combined with efficiency of operation.

Ben Litwak (center), Klein senior vice president—operations, reviews new Wayne, N. J., store with William Wilson (left), store manager and Charles Merlin, store operations manager.

## S. KLEIN DEPARTMENT STORES OFFICERS

S. Neaman	Chairman & President
L. A. Silverberg	Executive Vice President
Samuel S. Brand	Senior Vice President—Director of Controls
Ben Litwak	Senior Vice President—Operations
Vice President—Divisional Merchandise Managers	
Perry Buckholtz	
Alvin Ferenz	
Murray Kravitz	
David Portnoy	
Vice Presidents	
David Ganz	Services
Robert Geber	Movement of Goods
Robert Gewelb	Manpower
Stephen Jackel	General Store Manager
Charles Gas	Vice President—Internal Audit
George Gondzal	Vice President—Systems & Methods
Joseph Walker	Vice President—Counsel & Secretary
Charles Witz	Controller









## Best & Co.

A dramatic infusion of youth-appeal is adding a dynamic, forward-looking dimension to Best & Co.'s continuing face-lifting and expansion program. New store-within-store departments, each exemplifying the extended storewide high fashion approach, project a vital style and sales strategy for this renowned family of stores.

The new departments in the Fifth Avenue "flagship" store were constructed without a break in business-as-usual activity. The 1968 additions, bespeaking a merchandising philosophy that looks to the upcoming generation for the building of a broader customer base, included a unique setting for the classic Liliputian Bazaar for tiny folk and the debut of Miss Cosmopolitan, a floor devoted to the young married's and career women.

The most striking innovation—and an instant success—has been Stage 9. Here is a new floor devoted to the "new look" fashions demanded by the age group spanning high school, college, and into the mid-twenties. On Stage 9 are shops for "guys and gals," as well as a "unisex" shop of avant-garde styles. The shopping stage is the tempo of piped-in rock sound, accompanied by the swirl of rotating vibrant colors—with an environmental background added by Peter Max. On the scene is swinging sales staff, the shoppers' contemporaries in age and in attitude.

Next scheduled for the ongoing remodeling project is the main floor. Work there is to begin in mid-1969.

Also planned are new and expanded branch stores, which will further develop the concepts developed in the main store. Construction is due to begin this spring on a unit adjacent to the Fashion Mall in Ridgewood, N.J. Covering 62,000 square feet, it will be approximately six times larger than the Paramus store that it will replace. The store will be designed and landscaped with a "country look" to reflect its suburban setting. Its merchandising policy will be patterned on that of the New York store, with stock more "in depth" than that presently available in the branch stores.

In the planning stage are additional larger units, also with an enlarged scope of operations.

The initial facets of this revitalization program, including a new advertising, promotion and display format begun last year are already showing results. An increasing acceptance of Best's as a high fashion outlet is apparent among consumers and industry sources. Indeed, each step, developed with an eye to both taste and timeliness, appears to be reinforcing the store's appeal to the traditional Best customer, as well as attracting a new following.

On "Stage 9" at Best & Co., Jack Schwadron, president (right), with M. Ronald Ruskin, executive vice-president and general merchandise manager.

### BEST & CO. OFFICERS

Samuel Neaman	Chairman of the Board
Jack Schwadron	President
M. Ronald Ruskin	Executive Vice President—General Merchandise Manager
Arthur Golden	Vice President—Finance
Roger Hundley	Vice President—Store Management
Norman Margolis	Vice President—Sales Promotion
Alvin Somers	Vice President—Merchandise Manager, Children's Division









## OTASCO & Economy Auto Stores

During 1968, this division celebrated its 50th birthday with a year long Golden Anniversary program. A once-in-a-lifetime event, its achievements matched its significance as sales, earnings, new store openings and personnel promotions set fresh records.

The largest expansion program ever undertaken in one year was completed with 14 new company-owned stores and almost an equivalent number of franchised dealers established by the year end. In 1968, this division opened its first Otasco company-owned stores in Texas and Kentucky. In all, 471 stores were in operation by the beginning of the new year. In addition, many older stores were remodeled, enlarged or relocated to provide more modern efficient selling areas, plus improved facilities for automotive service and parts installation.

New, highly developed programs were added to the Otasco & Economy data processing system to give more accurate and up-to-date information for purchasing operations and sales management.

Nineteen Sixty-Eight was a landmark year in personnel relations, also. There were more promotions to positions of greater responsibility than in any previous year in the company's history. Individual earnings were at record levels and a number of significant improvements in the Employees Benefit Program were initiated.

The success of the 1968 Golden Anniversary program augurs even greater accomplishments in 1969. Plans are already underway for an expanded advertising effort in all media to pyramid sales. Store development will be accelerated with leases for 12 additional stores already signed and more anticipated during the course of the year. Culminating three years of planning and development, ground will be broken in early 1969 for a new 444,000 square foot headquarters, general office and warehousing complex in Tulsa. This building will be among the most modern and efficient facilities of its type in the nation—permitting the division to continue its accelerated expansion program.

Increased emphasis on personal service and selling are projected for 1969, and there will be a concentration of effort on personnel training and development to enable the division to continue its outstanding effort. Otasco & Economy Auto looks to its next fifty years for a growth record even more glowing than the last.

### OTASCO & ECONOMY AUTO STORES OFFICERS

Housewares, hardware and auto supplies surround OTASCO and Economy officers Julius Sanditen (left), vice chairman and chief executive officer; Ely Sanditen, vice chairman of the executive committee and Abe Brand, president.

Maurice Sanditen	Chairman
Julius Sanditen	Vice Chairman & Chief Executive Officer
Ely G. Sanditen	Vice Chairman of Executive Committee
Abe Brand	President
Edgar Sanditen	Vice President—Merchandising
A. A. McNatt	Vice President—Retail Division
John R. Behl	Vice President—Economy Division
Edward Wilkonson	Vice President—Research and Development
Samuel H. Minsky	Secretary
Herman Sanditen	Treasurer
Mark Colburn	Assistant Secretary







# Lerner Shops

The accelerating pace of a company on the move characterized Lerner Shops' activity during 1968—its 50th Anniversary. Major moves for retail growth and operating efficiency achieved a record breaking year in 1968 and propelled the company forward to continued progress in 1969.

The opening of 17 new Lerner Shops in suburban shopping centers and the modernization of existing stores in downtown areas was in keeping with their objectives for the continuing growth of the company. As at January 31, 1969, there were 375 Lerner Shops in operation in 39 states, the District of Columbia and Puerto Rico.

Plans for the coming year contemplate the opening of 18 new Lerner Shops and the continued modernization and improvement of many of the existing stores.

The opening of a sixth regional administrative office and distribution center in Pittsburgh—others are in Los Angeles, Atlanta, Denver, Chicago and Jacksonville—further advanced their policy of decentralization of store operations and merchandise control with their attendant advantages. The Jacksonville center was enlarged to keep pace with the company's expanding operations in Florida and construction of a new Chicago office and distribution center was started to replace present facilities in Chicago which have become inadequate.

Relocating of the company's corporate headquarters and warehouse distribution facilities in New York to a modern building has been completed. Better integration of all corporate office and merchandise distribution functions will heighten efficiency.

Continued attention has been paid to the improvement of Electronic Data Processing systems and equipment in both the New York headquarters and the six regional centers.

While some of these programs were factors in the Lerner Stores Corporation's record 1968, it is in 1969 and the years to come that their greatest impact will be felt.

On the "fashion selling floor" are Lerner Shops executives Harold M. Lane, Sr. (center), chairman of the executive committee and chief executive officer; Harold M. Lane, Jr. (left), president and Stanley H. Kunsberg, chairman of the board.

## LERNER STORES CORPORATION OFFICERS

Harold M. Lane, Sr.  
*Chairman of Executive Committee & Chief Executive Officer*  
Stanley H. Kunsberg.....*Chairman of the Board*  
Harold M. Lane, Jr.....*President*  
D. John Palladino.....*Vice President & Treasurer*  
Karl Margolis.....*Vice President—Divisional Merchandise Manager*  
Nathan B. Epstein  
*Vice President & Secretary—Divisional Merchandise Manager*  
Milton Seegal  
*Vice President—General Manager—Los Angeles Division*  
Robert L. Krill.....*Vice President—General Manager—Chicago Division*  
Harold Greene.....*Vice President—General Manager—Denver Division*  
Eugene Shaw.....*Vice President—General Manager—Atlanta Division*  
Melvin J. Redmond  
*Vice President—General Manager—Jacksonville Division*  
Marc J. Reiss.....*Vice President—General Manager—Pittsburgh Division*  
David D. Greenwald.....*Vice President—Real Estate*  
Abraham D. Sperber  
*Vice President—Divisional Merchandise Manager*  
Tully H. Scheiner.....*Vice President—Store Operations*  
Bruce A. Jacobi.....*Vice President—Real Estate*  
Samuel S. Brand.....*Vice President—Systems & Procedures*  
Max J. Miller.....*Vice President—Labor Relations*  
Jacob J. Scher.....*Vice President—Transportation & Warehousing*





Corporate Offices—711 Fifth Avenue, New York, N.Y. 10022

### **McCrory-McLellan-Green Stores**

2955 East Market Street  
York, Pennsylvania 17402

### **Lerner Shops**

460 W. 33rd Street  
New York, N.Y. 10001

### **S. Klein Department Stores**

31-39 W. 34th Street  
New York, N.Y. 10001

### **OTASCO & Economy Auto Stores**

6901 East Pine Street  
P.O. Box 885  
Tulsa, Oklahoma 74102

### **Best & Co.**

645 Fifth Avenue  
New York, N.Y. 10022



# Accountants' Opinion

HASKINS & SELLS  
CERTIFIED PUBLIC ACCOUNTANTS

TWO BROADWAY  
NEW YORK 10004

To the Board of Directors and Stockholders of  
McCrory Corporation:

We have examined the financial statements of McCrory Corporation and subsidiary companies except Lerner Stores Corporation and its subsidiaries for the year ended January 31, 1969. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. As to Lerner Stores Corporation and its subsidiaries, we were furnished with the report of other accountants on their examination of the financial statements of that company and its subsidiaries for the year.

In our opinion, based on our examination and the report of other accountants referred to above, the accompanying consolidated balance sheet and statements of consolidated income, consolidated surplus and source and application of consolidated financial resources present fairly the financial position of McCrory Corporation and subsidiary companies at January 31, 1969 and the results of their operations and the source and application of their consolidated financial resources for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Haskins & Sells*

March 21, 1969







## Statement of Consolidated Income

	Year Ended January 31,	
	1969	1968
<i>Revenues:</i>		
Net sales .....	\$855,742,698	\$813,416,223
Other—net .....	4,188,431	4,146,780
	<u>859,931,129</u>	<u>817,563,003</u>
<i>Costs and Expenses:</i>		
Cost of goods sold .....	622,074,285	599,319,308
Selling, general and administrative expenses .....	185,648,034	171,603,720
Interest and debt expense .....	12,721,111	10,694,356
Depreciation and amortization .....	9,238,876	9,284,629
Federal income taxes .....	13,840,000	11,018,000
Income applicable to minority interest .....	3,949,220	3,577,359
	<u>847,471,526</u>	<u>805,497,372</u>
<i>Income Before Extraordinary Items</i> .....	12,459,603	12,065,631
<i>Extraordinary Items—Gain on sale of securities (\$474,750) and operating units (\$393,056) net of related income taxes</i> ..	867,806	—
	<u>13,327,409</u>	<u>12,065,631</u>
<i>Net Income</i> .....	<u>\$ 13,327,409</u>	<u>\$ 12,065,631</u>
<i>Per Share of Common Stock:</i>		
Income before extraordinary items .....	\$2.32	\$2.27
Extraordinary items .....	.18	—
Net income .....	<u>\$2.50</u>	<u>\$2.27</u>

*Pro forma net income per share of common stock, reflecting assumed exercise of all warrants and options and conversion of all convertible securities of McCrory, would have been \$2.08 per common share (including extraordinary items of \$.13 per common share) for the year ended January 31, 1969.*

*See Notes to Financial Statements.*



## Consolidated Balance Sheet

	January 31,	
	1969	1968
<i>Assets</i>		
<i>Current Assets:</i>		
Cash .....	\$ 16,333,403	\$ 11,295,379
Receivables, less allowances (\$1,623,991 and \$1,464,737) .....	7,559,718	6,759,378
Merchandise inventories .....	124,753,129	115,118,012
Prepaid expenses, etc.....	5,259,518	4,695,868
Total Current Assets .....	<u>153,905,768</u>	<u>137,868,637</u>
<i>Investments in and Advances to:</i>		
Glen Alden Corporation, at cost .....	34,267,491	34,267,491
McCrory Credit Corporation, at equity .....	10,766,867	10,056,269
	<u>45,034,358</u>	<u>44,323,760</u>
<i>Property and Equipment</i> .....	193,505,979	178,501,675
Less accumulated depreciation and amortization .....	106,707,355	100,934,757
	<u>86,798,624</u>	<u>77,566,918</u>
<i>Other Assets:</i>		
Excess of cost of investments in subsidiaries over related equities .....	20,627,148	20,627,148
Unamortized debt expense .....	6,950,359	8,226,214
Deferred stock bonus expense .....	4,128,971	—
Mortgages and sundry .....	1,532,359	2,695,768
Trademarks, deferred charges and unamortized goodwill..	4,674,494	3,895,077
	<u>37,913,331</u>	<u>35,444,207</u>
	<u>\$323,652,081</u>	<u>\$295,203,522</u>

See Notes to Financial Statements.



	<i>January 31,</i>	
<i>Liabilities and Stockholders' Equity</i>	<i>1969</i>	<i>1968</i>
<i>Current Liabilities:</i>		
Current maturities of long-term debt . . . . .	\$ 8,555,688	\$ 7,389,677
Accounts payable . . . . .	24,873,504	26,272,697
Accrued expenses and sundry . . . . .	27,318,887	23,659,867
Accrued Federal income taxes . . . . .	13,250,419	11,223,238
Total Current Liabilities . . . . .	<u>73,998,498</u>	<u>68,545,479</u>
 <i>Long-Term Debt, less current maturities . . . . .</i>	 <u>81,268,859</u>	 <u>80,771,065</u>
 <i>Deferred Federal Income Taxes and Other . . . . .</i>	 <u>26,511,015</u>	 <u>22,088,270</u>
 <i>Minority Interest in Subsidiary . . . . .</i>	 <u>14,937,162</u>	 <u>10,750,307</u>
 <i>6½ % Convertible Subordinated Debentures . . . . .</i>	 <u>12,048,507</u>	 <u>12,092,207</u>
 <i>Stockholders' Equity:</i>		
Preferred and preference stocks . . . . .	17,184,000	17,482,900
Common stock, \$.50 par value, authorized 15,000,000 shares; issued 6,126,829 shares and 6,111,502 shares . .	3,063,414	3,055,751
Capital surplus . . . . .	53,071,182	51,846,812
Earned surplus . . . . .	67,252,225	62,152,313
	<u>140,570,821</u>	<u>134,537,776</u>
Less treasury common stock 940,309 shares and 1,306,285 shares, at cost and equity in subsidiary's cost of its treasury stock \$6,808,689 and \$7,389,474 . . . . .	25,682,781	33,581,582
Stockholders' Equity . . . . .	<u>114,888,040</u>	<u>100,956,194</u>
	<u>\$323,652,081</u>	<u>\$295,203,522</u>

*See Notes to Financial Statements.*



## Statement of Consolidated Surplus

	Year Ended January 31,	
	1969	1968
<i>Earned</i>		
Balance, February 1 .....	\$62,152,313	\$57,383,383
<i>Add (Deduct):</i>		
Net income .....	13,327,409	12,065,631
Dividends:		
On preferred and preference stocks .....	( 926,696)	( 980,401)
On common stock (\$1.20 per share) .....	(6,035,210)	(5,859,232)
Excess of cost of 245,766 and 77,586 shares of treasury stock issued under stock option plans over option price .....	(1,265,591)	( 444,585)
Other—net .....	—	( 12,483)
Balance, January 31 .....	<u>\$67,252,225</u>	<u>\$62,152,313</u>
<i>Capital</i>		
Balance, February 1 .....	\$51,846,812	\$43,338,279
<i>Add:</i>		
Excess of principal amount of debentures and par value of preferred and preference stocks converted over par value of common stock issued .....	334,274	214,119
Excess of proceeds over par value of common stock issued on exercise of 3,990 and 1,014 Warrants .....	77,805	19,773
Excess of market value over cost of treasury stock issued under stock bonus plans .....	776,041	—
Surplus arising from issuance of 594,968 Warrants at \$2 per Warrant .....	—	1,189,936
Credit arising from McCrory Recapitalization Tender Offer .....	—	1,413,562
Equity in certain transactions of subsidiaries .....	35,563	5,670,850
Other—net .....	687	293
Balance, January 31 .....	<u>\$53,071,182</u>	<u>\$51,846,812</u>

See Notes to Financial Statements.



# Source and Application of Consolidated Financial Resources

Source	Year Ended January 31,	
	1969	1968*
Operations:		
Net income .....	\$13,327,409	\$12,065,631
Charges not requiring current outlays:		
Depreciation and amortization .....	9,238,876	9,284,629
Deferred Federal income taxes .....	4,179,000	3,856,000
Debt expense and in 1969 stock bonus expense of \$465,491 .....	1,540,176	899,136
Income applicable to minority interest, less cash dividends of \$658,100 and \$863,164 .....	3,291,120	2,714,195
	<u>31,576,581</u>	<u>28,819,591</u>
Proceeds on exercise of shares under stock option plans ..	3,671,976	1,107,700
Increase in debt—net (1968 exclusive of \$27,406,849 issued during year in recapitalization tender offers and in acquisition of S. Klein Department Stores, Inc.) ....	454,094	5,901,011
Other—net .....	313,949	(46,422)
	<u>\$36,016,600</u>	<u>\$35,781,880</u>
 <i>Application</i>		
Additions to property and equipment—net .....	\$18,470,582	\$ 9,578,703
Dividends paid .....	6,961,906	6,839,633
Treasury stock purchased .....	—	5,936,539
Increase in working capital .....	10,584,112	13,427,005
	<u>\$36,016,600</u>	<u>\$35,781,880</u>

\* 1968 restated for comparative purposes.

See Notes to Financial Statements.



## Notes to Financial Statements, January 31, 1969

### Principles of consolidation

The consolidated financial statements include all wholly-owned subsidiaries, except McCrory Credit Corporation, and include Lerner Stores Corporation (60.6% owned at January 31, 1969).

### McCrory Credit Corporation and equity in instalment accounts sold

McCrory and its affiliates assign certain customers' accounts receivable to McCrory Credit Corporation, which remits 90% of the amount thereof. The companies accept reassignment of any accounts in default, as defined. The 10% equity of McCrory and subsidiaries in assigned accounts (the uncollected balances of which amount to \$45,089,000 at January 31, 1969) is included in receivables in the consolidated balance sheet. Collections in January 1969 (payable to McCrory Credit Corporation in February 1969) from assigned customers' accounts (net of 10% equity) amounting to \$12,825,000 have been deducted from receivables in the consolidated balance sheet. The investment in McCrory Credit Corporation is carried at McCrory's equity in the capital and undistributed earnings at January 31, 1969 as summarized below:

Accounts receivable, less un-earned discount .....	\$55,178,763	
Cash .....	7,182,696	
Other assets, less other liabilities .....	1,055,408	\$63,416,867
Notes payable to banks .....	52,650,000	
Notes payable to McCrory and subsidiaries .....	7,000,000	59,650,000
McCrory's equity .....		<u>\$ 3,766,867</u>

Net income of McCrory Credit Corporation for the years ended January 31, 1969 and 1968 of \$710,598 and \$430,701, respectively, is included in consolidated income.

### Investments

#### CONSOLIDATED SUBSIDIARIES:

Lerner Stores Corporation—McCrory owned at January 31, 1969 and 1968, 2,558,815 shares of Lerner common stock (60.6% and 61.7%, respectively).

At January 31, 1969 the aggregate cost of investments exceeded equity in underlying net assets at dates of acquisition as follows: common stock of Lerner (\$8,720,000) and securities of S. Klein Department Stores, Inc., a wholly-owned subsidiary since November 1967 (\$11,907,148). Such excess purchase costs have been recognized by the McCrory management to be similar in nature to intangibles which have not declined in value since acquisition. Accordingly, at dates of acquisition, management adopted the policy of not amortizing these excess purchase costs, so long as there is no diminution in value of the related investments.

#### GLEN ALDEN CORPORATION:

McCrory owned at January 31, 1969 and 1968, 2,388,230 common shares of Glen Alden (13.3% and 30.5%, respectively). On March 14, 1969 these shares were tendered to Rapid-American Corporation in exchange for 597,058 shares of Rapid common stock, 1,194,115 callable warrants to purchase Rapid common stock at \$35 per share, expiring May 15, 1994, and \$9,552,920 principal amount of Rapid 7% subordinated debentures, due May 15, 1994. It is the present intention of McCrory's management to dispose of all of the Rapid securities.

### Merchandise inventories

Merchandise inventories, at lower of cost (mainly retail method) or market, consist of the following:

	January 31,	
	1969	1968
Merchandise at stores and warehouses:		
At retail method .....	\$ 90,418,939	\$ 85,345,929
At first-in, first-out cost .....	20,628,188	18,306,088
Merchandise in transit, at warehouses and at restaurants—at cost .....	13,382,490	10,917,904
Raw materials, including merchandise at contractors—at specific invoice cost or replacement cost .....	323,512	548,091
Total .....	<u>\$124,753,129</u>	<u>\$115,118,012</u>

### Property and equipment

Property and equipment, stated at cost, consist of the following:

	January 31,	
	1969	1968
Furniture and fixtures and leasehold improvements .....	\$179,987,104	\$165,913,018
Store properties, warehouses and leased facilities .....	13,518,875	12,588,657
Total .....	<u>\$193,505,979</u>	<u>\$178,501,675</u>

McCrory and its subsidiaries provide for depreciation and amortization generally on the straight line method over the estimated service lives of the properties.

### Long-term debt

Long-term debt at January 31, 1969 and maturities due within one year consisted of the following:

	Current Maturities	Long-Term Debt
5½% sinking fund subordinated debentures, due 1976 (a) .....	\$2,047,920	\$30,726,720
5% junior subordinated notes, maturing serially to April 1, 1970 .....	1,194,115	597,057
5% junior sinking fund subordinated debentures, due July 15, 1981 (b) .....	262,369	12,856,081
Notes payable to banks under Revolving Credit Agreement (c) ..	—	24,500,000
6½% sinking fund subordinated debentures, due September 1, 1982 .....	97,497	9,824,333
5.70% promissory note, due on September 1, 1969 .....	3,400,000	—
Sundry, principally mortgages .....	1,553,787	2,764,668
Total .....	<u>\$8,555,688</u>	<u>\$81,268,859</u>
6½% convertible subordinated debentures, due February 15, 1992 (d) .....	—	<u>\$12,048,507</u>

(a) Exclusive of \$528 redeemed and cancelled which is available for 1970 sinking fund payment. Sinking fund requirements in each year are as follows: 1970 and 1971—\$2,048,448; 1972 through 1976—\$3,277,517, with a final payment of \$12,290,687 due on August 15, 1976.

(b) Required annual sinking fund payments commencing January 30, 1970 are 2% of the aggregate principal amount outstanding on the preceding January 15. Such payments at the 2% rate continue each succeeding year to and including 1974 and at the rate of 5% with respect to each year thereafter to January 30, 1980.



(c) Revolving Credit Agreement: 90 day promissory notes to banks, with interest at current prime rate, renewable at the option of the Company at each maturity date to December 30, 1970. It is the Company's present intention to renew these notes until December 30, 1970.

(d) Convertible at the option of the holder at the conversion price of \$25 principal amount of debentures per share of common stock to and including February 14, 1972, \$30 to and including February 14, 1977 and \$35 to and including February 15, 1992. During the year ended January 31, 1969 \$43,700 principal amount of these debentures were converted into 1,748 shares of common stock.

The aggregate of long-term debt maturing during the five years ending January 31, 1974 is approximately as follows: 1970, \$8,556,000 (included in current liabilities); 1971, \$3,544,000; 1972, \$4,244,000; 1973, \$3,908,000; and 1974, \$3,813,000. The year 1971 does not include \$24,500,000 of notes payable to banks under Revolving Credit Agreement (see (c) above).

Agreements covering certain indebtedness of McCrory contain covenants concerning working capital position, additional indebtedness, limitations on the declaration and payment of dividends, restrictions on transactions in capital stock, etc. At January 31, 1969 approximately \$26,000,000 of consolidated surplus was free of restrictions.

#### Federal income taxes

For Federal income tax purposes guideline methods of computing depreciation and the instalment method of reporting certain sales have been used. The use of these methods has resulted in tax deferrals which have been charged against income and credited to deferred Federal income taxes.

#### Preferred and preference stock and common stock purchase warrants

At January 31, 1969, 171,840 shares of \$100 par value preferred and preference stock were outstanding (aggregate par value \$17,184,000; aggregate redemption amount \$18,616,000) and 228,615 shares of common stock were reserved for the conversion thereof, as follows:

Class of Stock	Shares		Redemption Price	Conversion Rate	Common Shares Reserved
	Authorized	Outstanding			
3½% cumulative convertible preferred .....	2,676	2,676	\$104	5 for 1	13,380
\$6 cumulative convertible preference .....	94,725	94,725	115	3/14 for 1	20,298
5½% cumulative subordinated preference B.....	3,425	2,893	100	5 5/9 for 1*	16,072
4½% cumulative subordinated preference B.....	71,784	71,546	100	2 1/2 for 1*	178,865
Total.....		171,840			228,615

\* Until December 31, 1970, at which date conversion right ceases.

At January 31, 1969 there were outstanding 335,199 Warrants (expiring March 15, 1976) to purchase McCrory common stock at \$20 per share and 3,695,770 Warrants (expiring March 15, 1981) to purchase McCrory common stock at \$20 per share through March 15, 1976, and at \$22.50 per share through March 15, 1981.

During the year ended January 31, 1969, 2,989 shares of preferred and preference stock were converted into 9,589 shares of common stock.

#### Pension Plans

McCrory and Lerner have non-contributory pension plans covering certain of their employees. Pension costs accrued are funded as required. For the years ended January 31, 1969 and 1968 these costs amounted to \$620,000 and \$427,000, respectively. No contributions were required for one plan for

these years since the amounts accumulated in the trust fund exceeded the liability and vested benefits, as computed by the consulting actuary. The past service costs in respect of certain of these plans was approximately \$2,600,000, at January 31, 1969, which is being amortized over a 30 year period.

#### Stock option and stock bonus plans

Shares of McCrory's common stock reserved for issuance under stock option plans are tabulated below:

	1960 and 1961 Plans	1964 Plan	1967 Plan
Option price range .....	\$12.25- \$21.50	\$13.125- \$20.125	\$19.625- \$28.75
<u>Shares</u>			
Outstanding February 1, 1968	118,900	502,345	139,400
Transactions during year ended January 31, 1969:			
Granted .....	—	—	32,700
Exercised .....	(75,700)	(155,125)	(14,941)
Cancelled, etc. ....	—	(23,055)	(15,200)
Outstanding January 31, 1969	43,200	324,165	141,959
At January 31, 1969:			
Exercisable .....	43,200	270,915	50,209
Available for grant .....	None	62,455	42,200

During the year ended January 31, 1969 options for 245,766 shares were exercised at an aggregate option price of \$3,672,000. In addition, 310 shares of treasury stock were issued to employees for common stock service awards.

McCrory and Lerner adopted stock bonus plans during 1968. McCrory under its plans allocated and issued 123,750 shares of its common stock (includes 3,850 shares subsequently repurchased) and 21,100 shares are available for allocation. Lerner under its plans allocated and issued 71,000 shares (entire authorized number) of its common stock. The excess of market value of such shares on the date of allocation over the par value thereof is being charged to income ratably over periods not exceeding eight years.

#### Other matters

There are several claims pending against McCrory and subsidiaries together with other contingencies (including long-term leases on locations at which operations have been or will be discontinued). Total liability cannot be determined, but management and counsel are of the opinion that the liabilities in the consolidated financial statements are adequate to cover the same. At January 31, 1969 the minimum annual rentals upon property leased to McCrory and its subsidiaries under leases expiring after January 1972 amount to approximately \$34,000,000 plus, in certain instances, real estate taxes, insurance, etc.

#### Event subsequent to January 31, 1969

Pursuant to a tender offer effective on March 7, 1969, expiring on April 23, 1969 (unless extended), McCrory has offered to exchange \$40 principal amount of 7½% Sinking Fund Subordinated Debentures, due May 15, 1994, plus \$5 in cash for a share of McCrory common stock. McCrory will accept all shares of common stock properly tendered, up to a maximum of 1,500,000 shares.



## BOARD OF DIRECTORS

*ISIDORE A. BECKER	STANLEY H. KUNSBERG	SAMUEL J. LEVY	*LEONARD SPANGENBERG
PATRICK J. CLIFFORD	*HAROLD M. LANE, SR.	*SAMUEL NEAMAN	JEROME D. TWOMEY
VICTOR J. DEROBERTIS	HAROLD M. LANE, JR.	*BERT R. PRALL	HARRY H. WACHTEL
ALBERT N. GREENFIELD	*LEONARD C. LANE	*MESHULAM RIKLIS	HUGH C. WARD
BERNARD KOBROVSKY	SEYMOUR LAZAR	*JULIUS SANDITEN	J. S. WEINSTEIN

\*Member of Executive Committee

## OFFICERS

**MESHULAM RIKLIS**  
*Chairman of the Board*

**SAMUEL NEAMAN**  
*President*

**ISIDORE A. BECKER**  
*Vice Chairman & Treasurer*

**LEONARD C. LANE**  
*Vice Chairman*

**HAROLD M. LANE, SR.**  
*Vice Chairman*

**JULIUS SANDITEN**  
*Executive Vice President*

**HARRY H. WACHTEL**  
*Executive Vice President*

**HAIM BERNSTEIN**  
*Vice President*

**BERNARD J. BLANEY**  
*Vice President*

**SAMUEL S. BRAND**  
*Vice President*

**BRUCE A. JACOBI**  
*Vice President*

**ELY G. SANDITEN**  
*Vice President*

**SEYMOUR GREENE**  
*Secretary*

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*Executive Committee*

**BERNARD KOBROVSKY**  
*Salary and Compensation Committee*

**HUGH C. WARD**  
*Stock Option Committee*

**J. S. WEINSTEIN**  
*Acquisition and Diversification Committee*

### AUDITORS

HASKINS & SELLS, NEW YORK, N.Y.

### GENERAL COUNSEL

RUBIN WACHTEL BAUM & LEVIN, NEW YORK, N.Y.

### TAX ADVISORS

HANIGSBERG, DELSON & BROSER, NEW YORK, N.Y.

### PUBLIC RELATIONS

RUBENSTEIN, WOLFSON & Co., NEW YORK, N.Y.

### TRANSFER AGENTS

Common Stock	} Chemical Bank and First National Bank of Chicago
5½% Preference B Stock	
4½% Preference B Stock	

3½% Preferred Stock	} Morgan Guaranty Trust Company of New York and First National Bank of Chicago
\$6 Preference Stock	

### REGISTRARS

Common Stock	} Morgan Guaranty Trust Company of New York and Continental Illinois National Bank and Trust Company of Chicago
5½% Preference B Stock	

4½% Preference B Stock	} The Chase Manhattan Bank and Continental Illinois National Bank and Trust Company of Chicago
3½% Preferred Stock	

\$6 Preference Stock	} Chemical Bank and Continental Illinois National Bank and Trust Company of Chicago
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### CORPORATE OFFICES

711 FIFTH AVENUE, NEW YORK, N.Y. 10022















